

EXECUTIVE INSIGHT

Creating the Conditions for Transformational Change

How Organizations Create, Shape, Deliver, Grow

WHAT WE THINK

The accelerating pace of technological change makes it difficult for many companies to adapt and maintain the ability to be effective.

Companies that do survive likely have to transform themselves again and again to remain relevant. What do senior leaders need to know to transform successfully?

Organizational survival is becoming more difficult than in the past. The average lifespan of a company listed in the S&P 500 index of leading U.S. companies has decreased by more than 50 years in the last century, from 67 years in the 1920s to just 15 years today. In the future, this number is likely to shrink even more.

Transforming a company—be it through a new strategic direction or designing a completely different operating model—is difficult. Transformations typically fall short of leadership's expectations for a number of reasons. First and foremost, organizations often don't have the capabilities to successfully execute a new strategy or business model. Second, in many cases leaders are not aligned on the future state (post-transformation), which causes conflict and chaos throughout the organization. Even when they are aligned, leaders often fail to communicate the change priorities or attempt to implement too many change priorities. In either case, employees are unsure how to proceed, and they don't adopt the change—momentum is lost.

Successful transformational change is easier when employees readily adopt necessary changes and sustain them over time. Adoption can be difficult if changes run counter to the company's **operating culture**—what people describe as “the way we do things around here.” Senior leaders need to **assess** the current operating culture and determine what needs to be **managed** to ensure change is facilitated and not hindered. In other words, leaders need to leverage the operating culture to create the right conditions for transformational change. Unfortunately, the operating culture is often not addressed by leadership in transformational change efforts.

In our experience, transformational change requires that leaders understand the nuances of the operating culture and work to strengthen or adjust levers that make an organization more adaptable and flexible. In essence, there needs to be a focus on the cultural attributes that support a growing, thriving—and effective—organization in turbulent environments.

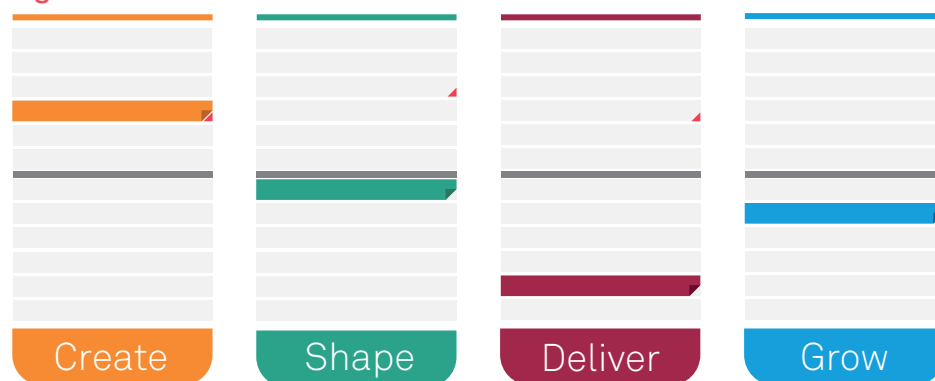
What are the levers and attributes within an operating culture that support effective change? For over 70 years, we have worked with leaders focused on driving organizational transformations. Over time, we have found similarities in specific dimensions of the operating cultures of successful companies. In 2015, we decided to test our model using RHR International's Operating Culture Survey. Based on executives' input from over 200 public companies, results provide support for the link between an effective operating culture and company performance. We also found support for the four main dimensions of operating cultures, each of which differentiate the highest performing organizations. These dimensions include mechanisms that help leaders create, shape, deliver, and grow the organization. We define these dimensions below:

- **Create:** How an organization understands its target markets, senses shifts in its environment, anticipates trends, and creates products and services that delight customers

- **Shape:** How an organization shapes its purpose and destination, selects a path forward, prioritizes its resources, and defines how to win in the market
- **Deliver:** How an organization balances quality execution with change to deliver on its commitments
- **Grow:** How an organization inspires, manages, and grows its people and resources

Each operating culture dimension consists of a set of distinct **priorities**, **decisions**, and **actions** that impact “how things get done” within an organization. Our research and experience show that for an organization to be adaptable and effective, leaders need to understand what operating cultural levers need to change and why. They need to ask the question: do our priorities, decisions, and actions within each factor result in the desired outputs? To better understand what we mean, let’s unpack each dimension and examine it from the unique perspective of senior leaders within the company.

Figure 1



Red Corner = High-Performing Org Benchmark
Color Bar = Company ABC Mean Score

Companies with an effective operating culture outperform their industry peers 2 to 1 on several criteria, including new product/service development and employee engagement. They also outpace their peers in estimates of revenue growth and market share.

Create

Leaders must interact with the external environment to determine what actions need to be taken internally. **Understanding** what’s happening in the market or industry is necessary to building an adaptable, effective organization but not sufficient. Most organizations monitor the environment well. Leaders and employees routinely spend time with customers, do market research, and keep up with the competitive landscape. Yet how many organizations anticipate customer needs

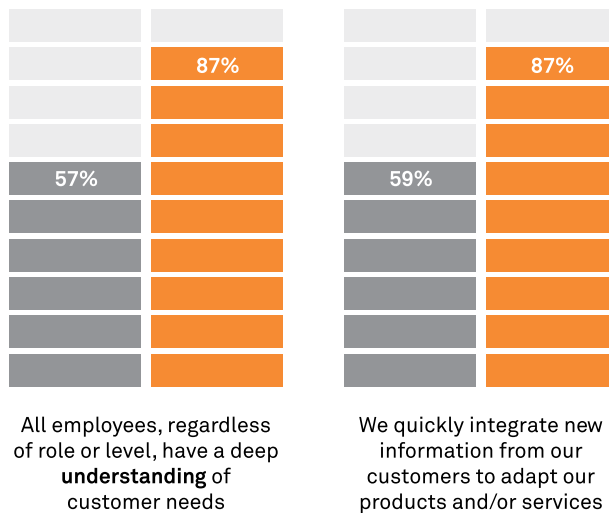
and wants consistently? How many integrate real-time external information to innovate quickly? Interestingly, what customers don’t say is often more important than what they do say. **Sensing** the needs of customers—and where the market is going—requires a different level of environmental and technological scanning.

We have found that adaptable, effective organizations that navigate change successfully take advantage of information or opportunities in the

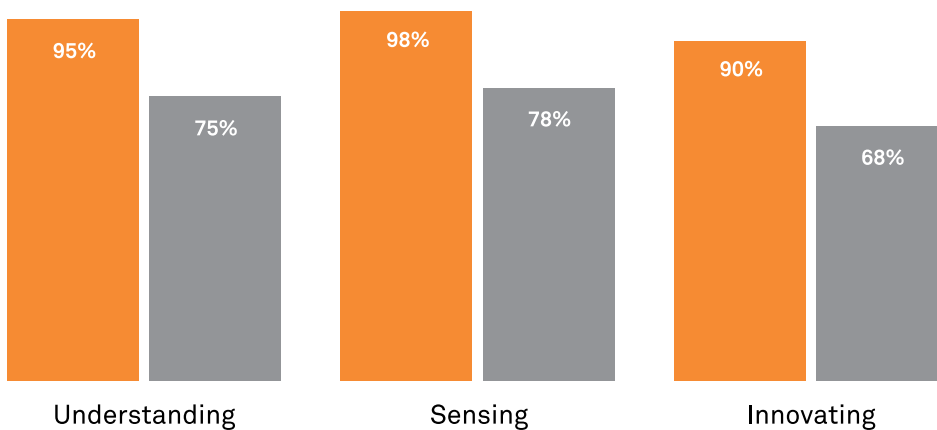
market quickly through a constant in-depth scanning of the environment. Leaders in these companies adapt their decisions about products or services because they have established excellent ways to monitor customers, competitors, and other key external stakeholders. They are zealots when it comes to creating, sharing, or shaping new ideas within the company. As a result, they are more innovative across all areas of the company—not just when focusing on new products or services.

Bringing it all together:

Organizations driven by leaders who attend to the customer, and who ensure that employees at all levels understand and adapt in response to evolving customer needs, outperform their industry peers on several indices, including new product development, product and service quality, and revenue growth.

UNDERSTANDING & INNOVATING

■ % High-performing organizations
■ % All other organizations

CREATE: HIGH-PERFORMING VS. ALL OTHERS

■ % High-performing organizations
■ % All other organizations

Companies that outperform their industry peers are significantly more likely to have leaders who excel at Understanding (listening to and anticipating customer needs), Sensing (staying updated on industry trends, monitoring the competition), and Innovating (developing and adapting products and services to delight customers).

Shape

To state the obvious, senior leaders are responsible for setting the vision and strategic direction for a company. They must shape what the organization will look like in the future as well as define what's important and why. Without the ongoing clarity of **vision and strategy** gained through leader-led dialogue and cascaded throughout, an organization can flounder—especially in times of transformational change.

Turbulent environments are often a trigger for strategic drift and lack of focus. When leaders empower employees to integrate external information and innovate accordingly, people will adapt and pursue new strategic opportunities when they become available. While these opportunities may be valuable, strategic initiatives without direction can be detrimental. Senior leaders often become disconnected from the oversight required to keep the organization strategically aligned. Effective organizations have a clear purpose and strategy that comes from the top and differentiates their companies in their respective markets—and keeps the organization aligned.

88% of leaders who explore strategic alternatives and their potential implications are confident in their company's strategy.

Strategy formulation and alignment is only a piece of the shaping phase. Translating the strategy into clear priorities is tantamount to success.

Of those executives who do not engage in scenario planning, only 42% are confident in the direction their company is headed.

Effective organizations are disciplined in how they plan the execution of their strategies. In our experience, we have found that most organizations pursue multiple initiatives that overlap and interconnect such that strategic execution becomes an intricate, often uncoordinated, balancing act. Real **planning** requires leaders to shape how work gets done. Planning increases top

leadership's ability to manage several initiatives simultaneously, especially when the initiatives involve shared use of resources and people. To be effective, it is essential for leaders to ensure that interrelated projects and change initiatives are mutually supported and carefully coordinated.

Bringing it all together:

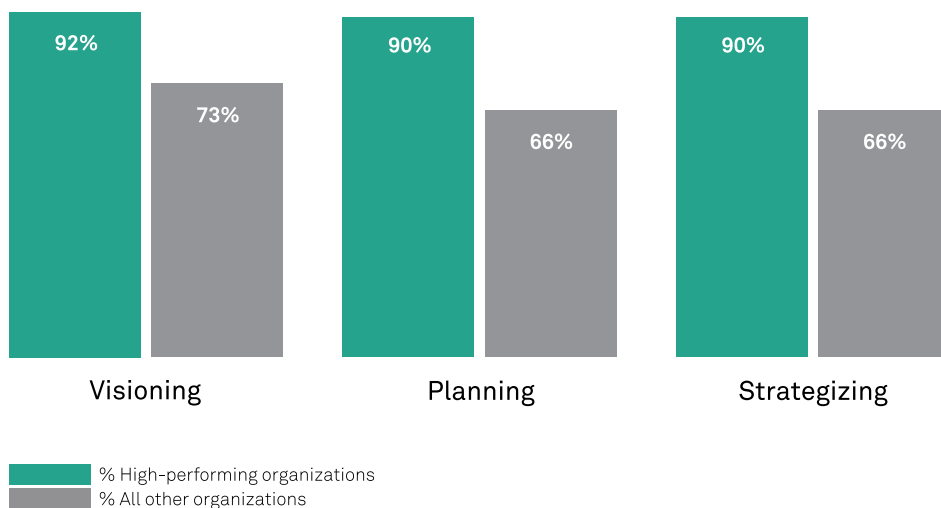
Companies with an effective operating culture are directionally aligned. This shared focus is reinforced by people throughout the organization using the strategy as a lens for determining where time and effort should go, and for distinguishing the critical from the non-critical.

STRATEGIZING



■ % High-performing organizations
■ % All other organizations

SHAPE: HIGH-PERFORMING VS. ALL OTHERS



Companies that outperform their industry peers are significantly more likely to have leaders who excel at Visioning (shared vision), Strategizing (clear strategy), and Planning (allocating resources appropriately, aligning individual goals to priorities and initiatives).

Deliver

With a well-thought-out, differentiated strategy and diligent planning, an organization has the potential to be effective in pursuing its goals during times of transformational change. Unfortunately, as we all know, many good strategies fail when it comes to execution. Why do companies struggle to close the gap between strategy and execution? Some believe that leaders need to commit to an identity that employees can follow, while taking the time to translate the strategy into everyday activities. While this is necessary, it's not sufficient. We routinely witness slow-moving companies with inefficiencies and bad decision making, even though there exist clear strategies and good advice on how to execute these strategies.

In our experience, a key to effective execution is enhancing efficiency while making high-quality decisions. Part of being efficient is having appropriate work processes in place that lead to desired outputs. It means having access to quality data and leveraging that data to make good decisions when they are needed. Unfortunately, not all organizations have these capabilities. Even when they do, there still needs to be sufficient collaboration and coordination to keep the organization aligned and moving toward achieving its transformational goals. Leaders need to ensure that decisions are delegated to the right people and inputs are provided by others in the organization at the right time.

A second key to effective delivery or execution is an organization's

ability to monitor progress and adapt. Organizations can only manage what they measure, so monitoring whether execution efforts are successful or not is critical. A significant benefit of a good monitoring process is that it serves as an organization's early warning system. It gives leaders the opportunity to communicate how the company is doing and where the problems and opportunities lie. When things change, or need to change, organizations that can adapt quickly are more likely to thrive and survive.

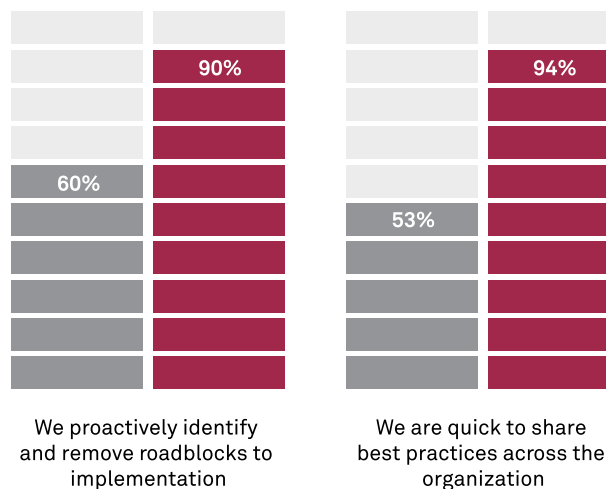
67% of organizations effectively leverage data to improve how the business operates.

At a minimum, effective adaptation requires a shifting of resources. Sadly, very few organizations are effective at changing strategic direction. In some cases, the status quo remains unchanged even though top leadership communicates new or shifted priorities. Leaders who can move people and dollars without creating churn in the organization keep the company on track. Many leadership teams take the easy way out when it comes to reallocating resources during times of change. Instead of making specific tradeoffs, they make blanket decisions or try to pursue new priorities on top of existing ones. Reallocating resources is hard work and will often feel like one is comparing apples and oranges, but it is a key aspect of effective adaptation.

Bringing it all together:

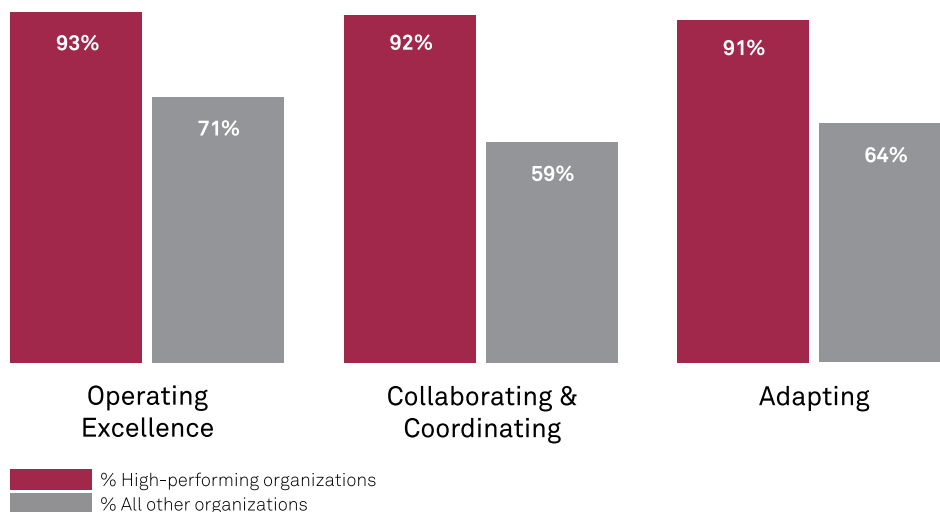
Higher-performing organizations are designed for agility: Leaders in these organizations are able to adapt their strategy when necessary and are significantly more likely to have a process in place for reprioritizing initiatives as priorities shift.

MONITORING PROGRESS AND COORDINATING



■ % High-performing organizations
■ % All other organizations

DELIVER: HIGH-PERFORMING VS. ALL OTHERS



■ % High-performing organizations
■ % All other organizations

Companies that outperform their industry peers are significantly more likely to have leaders who excel at Operating (improving efficiency, leveraging data to make good decisions), Collaborating (getting the right people together to solve problems, communicating effectively across the organization), and Adapting (shifting resources quickly to adapt to changes, analyzing successes and failures to learn from previous actions).

Grow

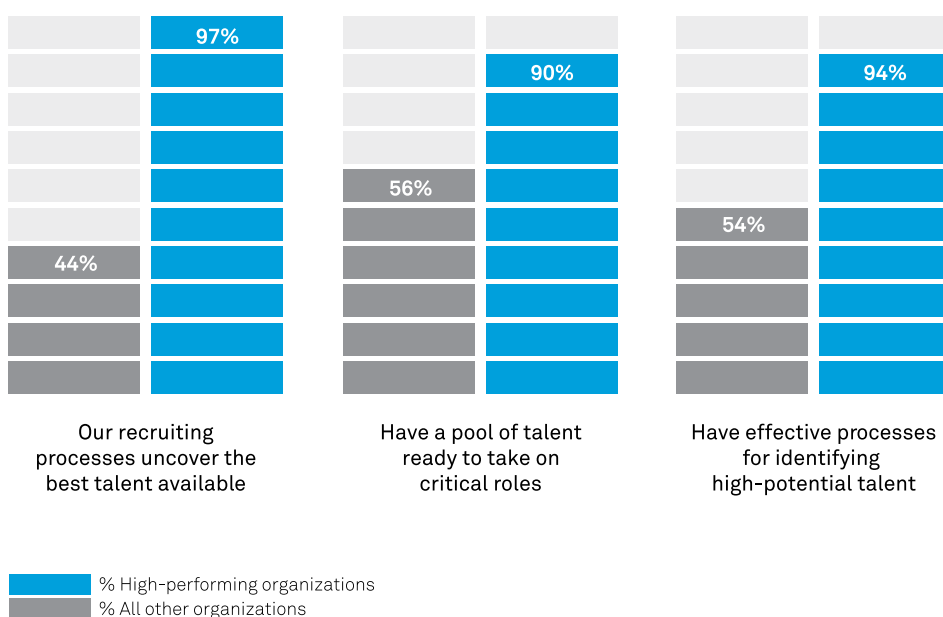
Those companies that effectively strategize, execute, and adapt are likely to transform successfully. But does this advantage last? Organizations need to continually reinvigorate themselves, or they become stale, while employees disengage. It's up to top leadership to obtain new capabilities, retain the best talent, and bring in newly required skills and expertise. Labeling this dimension as "grow" is appropriate because people need to feel that they are learning and developing over time. Leaders who provide opportunities for employees to learn and develop contribute to the growth of their organization. Thus, creating mechanisms that foster learning helps the organization navigate transformation over time as people apply what they learn to future challenges. Leaders must also develop themselves. To properly guide an organization that is evolving and transforming over time, leaders need to learn, adapt, and lead differently according to what the organization needs or expects from them.

Beyond talent identification and prioritization, effective organizations grow and thrive by continually motivating and rewarding employees appropriately. Motivated employees will work to achieve the organization's objectives regardless of the challenges in the external environment. Keeping employees motivated requires a performance management system that truly rewards performance and is perceived as fair and balanced by employees. We believe what separates effective organizations from those that merely survive during transformational change is the return on investment in talent-related initiatives, such as performance management, training, and leadership development.

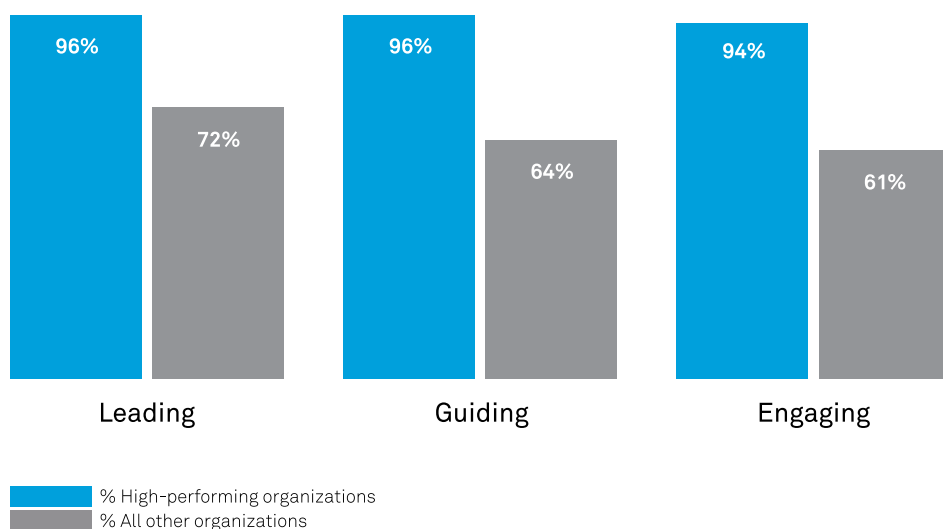
Bringing it all together:

Leaders of companies with effective operating cultures have a relentless focus on talent and building organizational capability—for now and for the future. This is reinforced by sourcing the very best talent possible to coaching and mentoring across organizational levels to building the succession bench. These practices are also associated with significantly higher levels of employee engagement.

SOURCING TALENT AND BUILDING ORG CAPABILITIES



GROW: HIGH-PERFORMING VS. ALL OTHERS



Companies that outperform their industry peers are significantly more likely to have leaders who excel at Guiding (appropriate incentives, clear performance feedback), Engaging (identifying high potential talent, developing talent and skills), and Leading (leaders display integrity and inspire and motivate employees).

Summary

Organizations are constantly making decisions and taking actions in the Create, Shape, Deliver, Grow dimensions of the operating culture. Continually improving the decisions, actions, processes, and outputs associated with the operating culture facilitates overall organizational effectiveness—and positions a company for ongoing successful transformation. Leaders are integral to managing the operating culture, as it is up to them to monitor and make necessary changes to the various actions and decisions that make up each dimension of the operating

culture. Perhaps more importantly, top leadership needs to communicate, coach, and provide feedback to employees as adjustments are made—allowing the organization to adapt and thrive over time.

Assessing and actively managing the operating culture is a critical—but often ignored—component of leading transformational change. Leaders need to create conditions for success. Shifting where employees focus and how they behave during times of change starts with leaders understanding how the operating culture supports (or does not support)

the change desired. When leaders appropriately manage the key dimensions of the operating culture outlined in this paper, transformation is easier, and better organizational performance typically follows. The job is never done, as leaders need to constantly monitor the operating culture and maintain the readiness of the organization to adapt and thrive over time.

Methodology note. The High-Performing Group is the top 15% of our research sample (i.e., greater than one standard deviation above the mean) on several dimensions of performance relative to industry peers—including market share, profitability/ROA, and employee engagement.

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